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SUBJECT: SOUTH AFRICAN MINISTER SAYS CHINA TRADE SHOULD
BETTER SERVE AFRICA

Summary

¶1. (U) In a forum on China-Africa economic relations, SAG Minister for Economic Development Ebrahim Patel said trade with China must be aligned to the SAG's domestic priorities, especially job creation and economic diversification into higher-value manufactured goods. China is now South Africa's largest trading partner, with bilateral flows risen to US\$107 billion, but the structure of that trade remains skewed with raw materials flowing east and finished goods coming back. To achieve more balanced exchanges, South Africa would press China for greater market access, capital investment, African enterprise development, and joint-venture partnerships. Lest commodities-based trade with China perpetuate colonial-era imbalances between Africa and the West, Ebrahim urged African nations to get tougher in pushing for their own self-interest in foreign trade relations. End Summary.

Foreign Ties Must Meet National Needs

¶2. (U) At a November 23-24 forum entitled "The New Coupling Between China and Africa" at Johannesburg's Gordon Institute of Business Science (GIBS), South African Minister for Economic Development Ebrahim Patel stressed that trade and investment with China must be aligned to the SAG's domestic priorities, toward improving the welfare of its people. President Zuma, he said, was firmly focused on reducing unemployment afflicting a fourth to a third of the population. The global economic crisis had brought major setbacks, not just in demand for minerals but also for industrial output. Manufacturing, said Patel, had fallen to 2004 levels, causing the loss of a million jobs or seven percent of the workforce. What was needed now was structural adjustment, putting South Africa on a more "labor absorbing growth path" -- a goal which relations with China must be leveraged to meet.

Trade Booming, but Structurally Skewed

¶3. (U) The People's Republic of China (PRC) is now South Africa's largest trading partner, but the structure of that trade remains imbalanced with raw materials flowing east and manufactured goods coming back. Patel said bilateral trade had grown exponentially from an estimated four billion dollars in 1996, to \$50 billion in 2006, and \$107 billion in ¶2008. South Africa is the continent's largest market for PRC exports (with a 17 percent share of African purchases), and it is the second largest (after Angola) source of PRC imports from Africa (16 percent). Across Africa, the top products sent to China were oil, iron, manganese, cobalt, copper,

wood, chrome, and ferroalloys -- all raw commodities. The main products sent back were cell phone handsets, cotton textiles, trucks, computers, bulldozers, motorbikes, shoes, synthetic textiles, tires, and ships -- all finished goods. South Africa's lists echoed those of the continent. With all the manufacturing done in China, current trade patterns are at odds with Patel's goal of maximizing jobs at home.

PRC Building Ties to Secure Commodities

¶4. (U) China's need for African raw materials was prompting it to pursue direct bilateral relations with source nations, said Patel, bypassing traditional commodity channels in New York and London. He said China favorably compared its own industrialization to that of western countries: all have had the same resource needs, but what the U.K. took through colonial conquest and the U.S. obtained through hegemonic influence in the Americas the PRC was negotiating by trade. (In a later impromptu remark, Patel said explicitly that in building a relationship with China the SAG wanted to avoid replicating the colonial imbalance between Africa and Europe.) Patel noted that the SAG's relations with the PRC government were deepening, including via bilateral commissions launched in 2002 and a more recent joint economic and trade committee. (Note: these are the same structures the SAG has established this year with the USG.) Three areas of focus were market access (into the PRC), mineral beneficiation (ore treatment), and infrastructure development.

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SAG Spin on PRC "Eight Commitments"

¶5. (U) At the Forum on China-Africa Cooperation (FOCAC)'s latest summit held earlier in the month at Sharm El Sheik, Chinese Premier Wen Jiabao conveyed eight PRC commitments to Africa. This list covered areas of cooperation such as climate change and clean energy, science and technology, financing including loans to small / medium sized enterprises (SMEs), access to Chinese markets for African products, agriculture, medicine and health, human resources and education, and cultural exchange. With these promises as a platform, said Patel, his goals were to achieve a more balanced structure of trade, greater African development, creation of higher-value domestic jobs, and diversification of the South African economy. Reshuffling Wen's list, Patel's own priorities were:

- Access for African products into China, especially for value-added manufactured goods;
- Foreign direct investment by Chinese firms into Africa, with diversification from mere mineral extraction to new industries like consumer goods manufacturing;
- Growth of African enterprises, through access to capital, economies of scale (via wider markets), and product differentiation;
- Joint ventures tapping South Africa's existing technology base and China's financing;
- Climate change and clean energy creating "green" jobs and export products;
- Agriculture, building on productivity advances to expand into food processing industries;
- Technical cooperation, from harmonization of import-export statistics to customs collaboration on criminal irregularities such as under-invoicing.

Africa Must Serve Its Own Interests

¶16. (U) In unscripted responses during Q&A, Patel was candid about Africa's need to stand up for its own interests, and to make greater demands of its trading partners. "When China opened up, it did so based on its own benefits, with a hard-nosed focus on the best sectors for its own interest. Africa has not been so focused." Africa, said Patel, must insist on more balanced benefits in its exchanges, breaking colonial molds: "The old supply chain model in which some countries supply raw materials and others have ingenuity is outdated. Now even mineral-rich countries must diversify" into value-added industry. "Africa needs to be tougher in its own interests. Even good friends must argue from time to time... The failure to be more hard-headed is prematurely stunting the relationship."

¶17. (U) When an executive of steel company Sinosteel asserted that Chinese firms were being blocked for contracts by U.S. and EU competitors, Patel gave assurances that there was "space in our economy" to accommodate all foreign partners. While South Africa's historical economic ties were with Europe and America, there was great interest in expanding relations with Asia and Latin America in the years ahead. There were two reasons for this: firstly, the large developing economies like Brazil, Russia, India, and China (BRIC) were the future; and secondly, Africa had not in the past wholly benefited from its relations with Europe and the West. Diplomatically, Patel assured the audience that South Africa wanted to continue its positive links to the U.S. and EU but was equally eager to welcome newcomers like China.

Comment

¶18. (SBU) Patel,s strategy makes complete sense from South Q8. (SBU) Patel,s strategy makes complete sense from South Africa,s point of view, but trying to shift manufacturing jobs here will be an uphill battle. South African labor costs are higher than China,s, and China has a jobs deficit of its own to fill. In most product areas China has the greater bargaining power: if South Africa insists on investment in return for its minerals, China could switch to

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other less demanding suppliers on the continent. GIBS executive Martyn Davies argued that Africa and China,s coupling is two-way -- with African growth dependent on Chinese demand, but PRC growth now also dependent on African supply. African countries can only exploit China,s dependency for their own advantage, however, if they do not let the PRC play them off against each other. End comment.
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